

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-026  
FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

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AUDIT STAFF

Ron Shackelford, CPA  
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Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#09-026

**27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA**

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Emmett Burroughs, President  
Board of Directors  
27th DAA, Shasta District Fair  
1890 Briggs Street  
Anderson, California 96007

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 27th District Agricultural Association (DAA), Shasta District Fair, Anderson, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 27th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 7 to the financial statements, the 27th DAA incorrectly accounted for the lease of an office copier as an operating lease instead of a capital lease. Therefore, the 27th DAA incorrectly expensed each monthly payment. In our opinion, the 27th DAA should establish an asset and long-term liability to conform to the accounting principles generally accepted in the United States of America since the lease agreement meets one of the criteria set forth in the Statement of Financial Accounting Standards No. 13 described in Note 7.

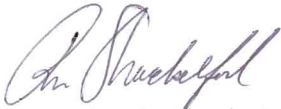
In our opinion, except for the effects of recording the lease as an operating lease rather than a capital lease as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the 27th DAA, Shasta District Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in



accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 27th DAA, Shasta District Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-026, on the 27th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 27th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA  
Chief, Audit Office

October 16, 2009

**27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>			
Cash & Cash Equivalents	111-116	\$ 115,501	\$ 77,852
Accounts Receivable, Net	131	33,749	31,790
Construction In Progress	190	75,900	75,900
Land	191	111,973	242,604
Buildings and Improvements, Net	192	3,645,087	2,744,357
Equipment, Net	193	7,729	20,852
<b>TOTAL ASSETS</b>		<b><u>3,989,939</u></b>	<b><u>3,193,355</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable & Other Liabilities	212-226	11,448	162,563
Current Portion of LT Debt - Capital Assets	212.5	33,766	7,973
Current Portion of LT Debt - Operations	212.6	5,000	-
Deferred Income	228	30,444	26,945
Guarantee Deposits	241	11,800	15,040
Compensated Absences Liability	245	34,855	35,641
Long Term Debt - Capital Assets	250	502,992	90,740
Long Term Debt - Operations	250.1	15,000	-
<b>Total Liabilities</b>		<b><u>645,305</u></b>	<b><u>338,902</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	(6,059)	24,235
Net Resources - Operations	291	46,762	(162,755)
Net Resources - Capital Assets less Related Debt	291.1	3,303,931	2,992,972
<b>Total Net Resources Available</b>		<b><u>3,344,634</u></b>	<b><u>2,854,452</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 3,989,939</u></b>	<b><u>\$ 3,193,355</u></b>

**27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
December 31, 2008 and 2007

	<b>Account Number</b>	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>			
State Apportionments	312	\$ 124,000	\$ 124,000
Capital Project Reimbursement, Photovoltaic & Other	313-319	584,689	382,814
Admissions	410	164,742	182,975
Commercial Space	415	84,070	81,020
Carnival	421	142,110	158,078
Food Concessions	422	67,035	69,955
Exhibits	430	20,180	18,331
Horse Show	440	2,862	3,252
Satellite Wagering	450	85,920	91,170
Attractions - Fairtime	460	8,019	12,940
Motorized Racing	461	52,242	436,254
Miscellaneous Fair	470	61,219	63,615
JLA - Revenue	476	58,692	85,211
Non-Fair Revenue	480	383,437	213,554
Prior Year Adjustment	490	(565)	7,014
Other Revenue	495	18,974	27,543
<b>Total Revenue</b>		<b><u>1,857,627</u></b>	<b><u>1,957,727</u></b>
<b>EXPENSES</b>			
Administration	500	304,427	312,621
Maintenance and Operations	520	337,326	383,666
Publicity	540	23,510	27,516
Attendance	560	94,095	81,208
Miscellaneous Fair	570	20,485	10,188
JLA - Expense	576	88,986	60,152
Premiums	580	33,702	35,174
Exhibits	630	49,657	45,413
Horse Show	640	3,014	3,842
Satellite Wagering Expense	650	69,311	65,280
Attractions - Fairtime	660	102,248	111,867
Motorized Racing	661	(1,013)	461,356
Prior Year Adjustments	800	31,925	16,930
Cash Over/Short from Ticket Sales	850	(184)	272
Depreciation Expense	900	209,955	142,118
<b>Total Expenses</b>		<b><u>1,367,445</u></b>	<b><u>1,757,603</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		490,182	200,123
Resources Available, January 1		2,854,452	2,654,329
<b>Resources Available, December 31</b>		<b><u><u>\$ 3,344,634</u></u></b>	<b><u><u>\$ 2,854,452</u></u></b>

**27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
December 31, 2008 and 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 490,182	\$ 200,123
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(1,959)	28,150
Increase (Decrease) in Deferred Income	3,499	5,515
Increase (Decrease) in Accounts Payable & Other Liabilities	(151,115)	10,244
Increase (Decrease) in Current Portion of Long-Term Debts	30,793	(24,265)
Increase (Decrease) in Compensated Absence Liability	(786)	(2,677)
Increase (Decrease) in Shasta Scholarship Fund	-	(427)
Increase (Decrease) in Guarantee Deposits	(3,240)	(2,150)
Total Adjustments	<u>(122,808)</u>	<u>14,390</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>367,374</b></u>	<u><b>214,513</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Construction in Progress	-	(59,195)
(Increase) Decrease of Land	130,631	-
(Increase) Decrease of Buildings and Improvements, Net	(900,730)	(199,430)
(Increase) Decrease of Equipment, Net	<u>13,122</u>	<u>8,879</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(756,977)</b></u>	<u><b>(249,746)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liabilities	<u>427,252</u>	<u>(7,973)</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>427,252</b></u>	<u><b>(7,973)</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>37,649</b>	<b>(43,205)</b>
Cash at Beginning of Year	77,852	121,057
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 115,501</b></u></u>	<u><u><b>\$ 77,852</b></u></u>



**27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2008 and 2007

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 27th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Shasta District Fair each year in Anderson, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

## NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

**NOTE 3      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash & Change Fund	\$ 1,080	\$ 1,080
Cash in Bank - Operating	4,894	19,168
Cash in Bank - Payroll	-	24
Cash in Bank - Auction	(3,368)	30,019
Cash in Bank - Premium	3,171	1,958
Cash in Bank - Investment & Savings	<u>109,724</u>	<u>25,603</u>
 Total Cash and Cash Equivalents	 <u>\$ 115,501</u>	 <u>\$ 77,852</u>

**NOTE 4      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 44,893	\$ 37,019
Allowance for Doubtful Accounts	<u>(11,144)</u>	<u>(5,229)</u>
 Accounts Receivable - Net	 <u>\$ 33,749</u>	 <u>\$ 31,790</u>

**NOTE 5      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 6,449,538	\$ 5,536,083
Less: Accumulated Depreciation	<u>(2,804,451)</u>	<u>(2,791,726)</u>
Building & Improvements - Net	<u>\$ 3,645,087</u>	<u>\$ 2,744,357</u>
 Equipment	 \$ 242,002	 \$ 253,742
Less: Accumulated Depreciation	<u>(234,273)</u>	<u>(232,890)</u>
Equipment - Net	<u>\$ 7,729</u>	<u>\$ 20,852</u>

**NOTE 6      LONG-TERM DEBT**

The 27th DAA has entered into an agreement with California Construction Authority (CCA) to install the Photovoltaic power-generating project on the fairgrounds. In 2008, CCA completed the Photovoltaic Project and the DAA recognized the loan term debt of \$553,591 which includes Fair portion of

\$431,179 based on the CCA closed project reports and an estimated total soft cost of \$122,412 to refinance the existing loans with National City Commercial Capital Corporation (NCCCC) based on the Use Agreement from CCA. CCA is working on refinancing the existing loans from NCCCC with an interest rate of 5.15% over 10 years by the issuance of the Clean Renewable Energy Bonds (CREB); thereby reducing the interest rate to 0.513395% over 15 years. The DAA is making monthly loan payments of \$3,196 based on a Proforma provided in 2008 by CCA as if CREB financing were in place. As of this date, efforts to find buyers for CREB have met with no success. The estimated terms of the agreement are as follows:

**CCA Photovoltaic Loan:**

Loan Amount	\$ 553,591
First Payment Date	July 2008
Payment Amount	\$ 3,196
Duration of Loan	191 Months
Interest Rate	0.513395%
Total Outstanding at 12/31/08	\$ 536,759
Current Portion at 12/31/08	\$ 33,766
Long-Term Portion at 12/31/08	\$ 502,993

Moreover, in May 2008, the 27th DAA entered into a long-term promissory note with the Division of Fairs and Expositions for fiscal operations. The terms of the agreement are as follows:

**F&E Loan**

Loan Amount	\$ 20,000
First Payment Date	May 2009
Duration of Loan	4 Years
Interest Rate	Zero, Principal Only
Payment Amount	\$ 5,000
Total Outstanding at 12/31/08	\$ 20,000
Current Portion at 12/31/08	\$ 5,000
Long-Term Portion at 12/31/08	\$ 15,000

**NOTE 7**

**CAPITAL LEASE**

In 2007, the 27th DAA entered into a lease agreement with a private company for an office copier. The 27th DAA accounted for the lease agreement as an operating lease thereby each monthly payment of \$221 was incorrectly expensed. According to Statement of Financial Accounting Standards No. 13, a lease is considered as a capital lease if it meets one of the four criteria: (i) transfer of ownership, (ii) bargain purchase option, (iii) present value of the minimum lease payments equal or greater than 90% of the fair market value of

the leased property and (iv) the lease term is 75% or more of the estimated economic life of the leased property. The lease agreement indicates a lease term of 60 months. In general, the economic life for equipment, i.e. copier is five years. Since the lease term is 100% of the economic life, the office copier qualifies as a capital lease. Therefore, the 27th DAA should capitalize the copier in Account #193, Equipment, and depreciate it accordingly. Furthermore, the 27th DAA did not recognize a long-term liability in Account #250, Long-Term Debt.

#### NOTE 8 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

#### NOTE 9 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**27th DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, 27th DAA Board of Directors
1	Chief Executive Officer, 27th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office



CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA

MANAGEMENT REPORT #09-026

YEAR ENDED DECEMBER 31, 2008

27TH DISTRICT AGRICULTURAL ASSOCIATION  
SHASTA DISTRICT FAIR  
ANDERSON, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2008

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AUDIT STAFF

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Ron Shackelford, CPA  
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Marinette Babida

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER  
#09-026

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Emmett Burroughs, President  
Board of Directors  
27th DAA, Shasta District Fair  
1890 Briggs Street  
Anderson, California 96007

In planning and performing our audit of the financial statements of the 27th District Agricultural Association (DAA), Shasta District Fair, Anderson, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Shasta District Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 27th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 27th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 27th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 27th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 27th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 27th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: internal control weakness in the administration of the JLA, temporary employees, and opportunity purchases. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 27th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### INTERNAL CONTROL WEAKNESS IN THE ADMINISTRATION OF THE JLA

The Fair exposed itself to loss by paying a third party independent contractor \$11,000 to administer the Junior Livestock Auction (JLA) during fairtime without a written contract that specified all related terms and conditions. According to a manager of the Fair, prior to 2009, the Fair had a verbal agreement with the third party contractor, prior to the manager's appointment, for an annual service fee of \$9,000. In 2009, the service fee was increased to \$11,000 although no written agreement was established to document the increase.

Since the Fair outsourced the administration of the JLA, it must comply with the Division of Fairs and Expositions (F&E) Accounting Procedures Manual (APM) that covers the JLA and notes the Fair must have a written agreement that clearly identifies the responsibilities of all parties that administer the JLA. In addition, as noted in the F&E Contract Manual, a contract sets forth terms, conditions, and the statement of all work to be performed and all contracts are required to be in writing. Without a written contract, we noted an internal control weakness since we are unable to validate that both parties met all the terms and conditions for the administration of the JLA and whether the yearly service fee is adequate. Thus, a written agreement between the Fair and the independent contractor is pertinent to mitigate any possible disputes.

#### *Recommendation*

- 1. The Fair should strengthen its internal controls over its administration of the JLA by ensuring any services performed or provided are documented in a written agreement that outlines all related terms and conditions. In addition to complying with the F&E Contract Manual, the written agreement would assist the Fair should any dispute with the third party arise at a later date.*

### TEMPORARY EMPLOYEES

The Fair allowed two temporary employees to work in excess of the 119-day limitation within a calendar year. According to the APM, Section III, 4.34, Temporary Employees, "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII Sec. 4(1) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 125 and 207 days in 2008. This was a prior year audit finding.

Moreover, the Fair did not enroll an employee who worked in excess of the 1000 hours limitation during fiscal year 2007/2008 into Alternate Retirement Program (ARP) in a timely manner. Our office noted no ARP deduction taken on the subsequent pay period after the employee exceeded the 1,000 hours. Per Government Code Section 20305, if an individual who is employed on an other than per diem basis works "1,000 hours within the fiscal year...ARP membership shall be effective not later than the first day of the first pay period

of the month following the month in which...1,000 hours of service were completed.” This was a prior year audit finding.

#### *Recommendations*

2. *The Fair should ensure it is tracking its temporary employees and not allowing them to work in excess of the 119-day limitation.*
3. *The Fair should comply with Government Code Section 20305 and enroll individuals who have worked at least 1,000 hours into ARP (PERS), effective the first day of the pay period of the following month.*

### **OPPORTUNITY PURCHASING**

The Fair made opportunity purchases during 2008; however, the Fair failed to document that opportunity purchases met or beat the State price. Opportunity purchases allow the DAAs to purchase commodities from any source, provided it meets or beats the price available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the state purchasing program does not sufficiently meet the documentation criteria. This was a prior year audit finding.

#### *Recommendation*

4. *The Fair should follow the proper guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meets or beats the State price.*

## NON-REPORTABLE CONDITIONS

### ACCOUNTING FOR A CAPITAL LEASE

The Fair did not establish an asset or long-term liability for the lease of an office copier. According to Statement of Financial Accounting Standards (SFAS) No. 13, a lease is considered a capital lease if it meets one of the four criteria: (i) transfer of ownership, (ii) bargain purchase option, (iii) present value of the minimum lease payments equal or greater than 90% of the fair market value of the leased property or (iv) the lease term is 75% or more of the estimated economic life of the leased property. The lease agreement indicates a lease term of 60 months. In general, the economic life for equipment (i.e., copier) is five years. Since the lease term is 100% of the economic life, the office copier qualifies as a capital lease. The Fair accounted for the lease agreement as an operating lease rather than a capital lease; as a result, the Fair incorrectly expensed each monthly payment made in 2007 and 2008.

Moreover, generally accepted accounting principles (GAAP) require that the acquisition be capitalized and depreciated, and a long-term debt be established for the unpaid obligation. Based on the review of the lease payments, we noted the monthly payment of \$221 does not indicate the portion related to the principal or the interest. Thus, it's the Fair's responsibility to obtain pertinent information, such as the principal portion and related amortization schedule, from the lessor to determine the unpaid obligation. Due to the lack of this pertinent information, we cannot determine the amount to be capitalized in Account #193, Equipment, and the unpaid obligation to establish a long-term liability.

#### *Recommendation*

*The Fair should obtain the acquisition cost and related amortization schedule from the lessor to capitalize the principal portion of the lease in Account #193, Equipment, and establish the long-term liability of the unpaid obligation of the lease in Account #250, Long Term Debt. Moreover, the Fair should ensure each monthly payment made reduces the liability by the principal portion.*

### CASH RECEIPTS

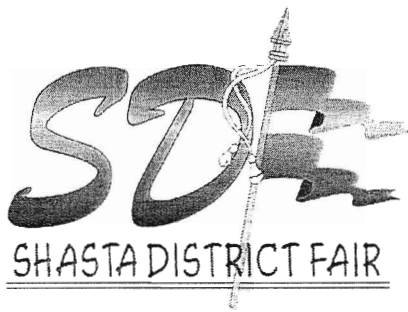
The Fair did not always deposit receipts in a timely manner. According to the APM Section I, 2.331, Deposit of Cash Receipts, timely deposits are essential to mitigate the possibility of a loss of funds by the Fair. Moreover, fairs are required to make bank deposits the next business day when currency exceeds \$500 or when cash in the aggregate exceed \$5,000. Furthermore, no collection should remain undeposited for more than fifteen business days. We noted the Fair allowed some deposits to exceed the threshold without making a bank deposit the next business day, and to remain undeposited up to ten days.



*Recommendation*

*The Fair should ensure they deposit cash receipts within the timeframes specified in the APM Section I, 2.331. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



March 16, 2010

Mr. Ron Shackelford  
Chief, Audit Office  
Department of Food & Agriculture  
2014 Capitol Ave, Suite 107  
Sacramento, CA 95811

Dear Mr. Shackelford:

The following is our response to the reportable conditions on the Preliminary Draft Audit Report your office performed on the 27<sup>th</sup> DAA for year ending December 31, 2008:

INTERNAL CONTROL WEAKNESS IN THE ADMINISTRATION OF THE JLA

**Item 1** – The Fair will strengthen its internal controls by complying with the F&E Contract Manual in making sure contracts are written for services performed or provided. As of January 1, 2010 the administration of the JLA is no longer handled by a third party which eliminates the need for a contract.

TEMPORARY EMPLOYEES

**Item 2** – The Fair will do its best to keep better track of the 119 days temporary employees work.

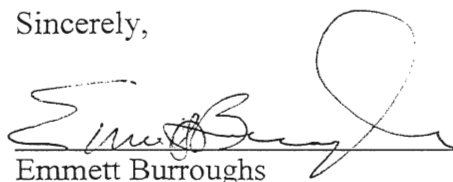
**Item 3** – The Fair will enroll all employees' that exceed 1,000 hours in a given fiscal year into the appropriate Retirement System.

OPPORTUNITY PURCHASES


**Item 4** – The Fair will follow proper guidelines when claiming an opportunity purchase by attaching supporting documents and bids demonstrating how the opportunity purchase met or beat the State price.

If you have any questions, please feel free to give me a call.

Sincerely,



Emmett Burroughs  
President



Chris Workman  
CEO

cc: Division of Fairs & Expositions  
File

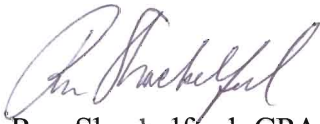
### **C DFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 27th DAA, Shasta District Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between October 5, 2009 and October 16, 2009. My staff met with management on October 16, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

October 16, 2009

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, 27th DAA Board of Directors
1	Chief Executive Officer, 27th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office